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EU Annual Dairy Trade Policy Report

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Report Highlights:

Last year and this year so far have been rather quiet on the dairy policy front, except for a timid first attempt to promote EU dairy products in third countries and a revised import regime which has produced encouraging, albeit not convincing first results. Dairy policy continues to be governed by domestic production quotas and export subsidies. The dairy quota system is in place until 2008. The mid-term review to be announced in June will discuss the fate of quotas after 2008.

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EU DAIRY POLICY

Executive Summary

Last year and this year so far have been rather quiet on the dairy policy front, except for a timid first attempt to promote EU dairy products in third countries and a revised import regime which has produced encouraging, albeit not convincing first results. Dairy policy continues to be governed by domestic production quotas and export subsidies. The dairy quota system is in place until 2008. The mid-term review to be announced in June will discuss the fate of quotas after 2008 but should not be earth-shaking as the Agenda 2000 dairy reform will only enter into force as of 2005. Export subsidies expenditures continue to decline due to lack of demand for EU products. Upcoming food safety legislation could influence the sector in the mid-term and the accession of ten Central and Eastern European countries will provide for readjustments in the longer term.

Imports simplification

Commission Regulation 2535/2001 was adopted in December 2001 in order to better manage dairy import quotas. It foresees that operators must be approved before they ask for import licenses, which implies that they have carried out trade in the previous year. Import licenses can only be requested in the member state that gave the approval and must cover a minimum of 10 tons and maximum 10 pct of the quota available. One crucial provision is the fact that traders are no longer allowed to return their unused import license requests, and thus get a refund of their security, if the allocation coefficient applied to the import quota is too low. Import licenses are transferable once. This is meant to solve the problem of unused import licenses which are not redistributed. After two rounds of import license requests, it is fair to say that these new measures provided a slight relief to the congested EU dairy import market. However, coefficient rates remain very low.

Enlargement

In 2000, the European Union concluded double zero agreements with ten Central and Eastern European countries (Poland, Slovenia, Slovakia, Bulgaria, Romania, the Czech Republic, Hungary, Latvia, Lithuania, Estonia), which have applied for EU membership. Under these arrangements, about 75 pct of EU agricultural imports from these countries were able to enter the EU at zero duty while EU export possibilities to these countries at zero duty (and without export refunds) doubled. In January 2002, the European Commission started a new round of negotiations with a view to finalizing the liberalization of agricultural trade started with the double zero agreements before final accession. These "double profit agreements" would tentatively be implemented as of July 1, 2002. The double profit approach, i.e. the removal of all export refunds and import duties, would affect cereals, dairy products (except non-Annex I products) and beef. The initiative foresees duty-free tariff quotas based, for EU exports, on 2 pct of each candidate's consumption of the product concerned. Similarly, for CEECs' exports to the EU, candidates would be given a weighted share of 2 pct of the EU's consumption, on the basis of export history and current production. The double profit agreements are not directly affecting dairy trade, which has been almost entirely covered by double zero agreements.

In February 2002, the EU Commission published its proposed milk quotas for the candidate countries. While the 10 candidate countries originally requested 23,607,900 tons of milk as their national reference quantity (representing 19.8 pct of the 2001/02 EU national reference quantity), the Commission fixed their aggregate milk quotas at 17,423,887 tons (or 14.6 pct of the 2001/02 EU national reference quantity). The future level of dairy premia and national envelopes for the candidate countries was set up also. Potential exemptions to the EU dairy regime, for instance on fat content of drinking milk, are requested by candidate countries but are unlikely to be approved.

Upcoming legislation

Hygiene rules

In July 2000, the Commission proposed four regulations which merge, harmonize and simplify hygiene requirements previously scattered over 17 existing directives, among which is directive 71/118 on health problems affecting trade in liquid milk, dried milk and dried-milk products not intended for human consumption and directive 92/46 on health rules for the production and placing on the market of raw milk, heat-treated milk and milk-based products .

These proposals focus on the introduction of a farm to table hygiene policy under HACCP guidelines and on the joint responsibility of food producers and government for food safety. A key principle is also traceability of all food and food ingredients through the mandatory registration of all establishments. These principles would be applied to domestic production as well as imports.

The responsibility for adapting the rules to local situations is, in principle, left to member states, adding an element of flexibility. However, the mere fact that the new legislation will take the form of a regulation rather than a directive, indicates the Commission's will to see measures implemented in a "harmonized" i.e. uniform way.

These regulations will be adopted in co-decision procedure, actively involving the European Parliament. The first Parliament reading is scheduled in May 2002, with a potential January 1, 2004 implementation date. Comments have been sent by U.S. authorities through the SPS channel in November 2000.

A yet unreleased proposal should also cover veterinary controls for food of animal origin and include provisions on health marks.

Animal by-products

In 2000, the Commission also proposed a new regulation laying down new health rules concerning animal by-products unfit for human consumption. Even though the proposal focuses mainly on new feed requirements, it also amends Directive 92/118 and in particular its chapter on milk and milk products not fit for human consumption. A new draft health certificate for these products stipulates that they will have to comply with the same sanitary requirements as dairy products fit for human consumption. After two readings in the European Parliament, the proposal is now in conciliation between the European Parliament and the European Council and could enter into force in 2003.

Zoonosis proposal

The Commission is also working on a revised zoonosis directive, which includes the control of *Listeria* in a series of products of animal origin, among which dairy products. These proposals would provide a framework for the setting up of new targets for zoonoses and would require that third countries exporting to the EU provide equivalent zoonosis monitoring as member states.

Promotion

Commission Regulation 94/2002 harmonizes information and promotion actions for agricultural products on the internal market. As for third country promotional programs, the Commission financial participation will amount to 50 pct of the total budget, while member state authorities and trade organizations will have to cover the other half. Until this year, the Commission funded 100 pct of dairy promotion programs. The indicative budget for EU participation is 6 million euro. Proposed programs should last from 12 to 36 months, giving priority to multi-annual programs that set targets for each stage. Main targets are children and adolescents, especially girls aged 8 to 13, and young women and mothers aged 20 to 40. Messages to convey are that milk and milk products are healthy, natural, high-energy products suited to modern living and enjoyable to consume. The promoted product will be identified as milk and other products such as cheese and yoghurt can only be promoted as dairy products. The promotion has to be generic, i.e. without reference to a brand or a national origin.

On December 18, 2001, the European Commission approved the first overseas promotional campaigns to be partially funded by the Commission. The expenditure for the EU authorities is estimated at 9.8 million euro (8.8 million usdols). Except for certain specific measures (information on labeling systems, high level visits, studies) which the EU finances at 100 pct, EU funding for most programs has to be matched by member state governments (30 pct) and trade organizations (20 pct). Financed measures can be "promotional or publicity measures highlighting the advantages of products, especially in terms of quality, hygiene, food safety, nutrition, labeling or environment-friendliness". These measures can support promotional activities focusing on the Community system of protection of origin (PDOs), protected geographical indications (PGIs), traditional specialties (TSGs) and organic farming. Products covered by these third country promotional programs are wine, fruit, cheeses and pigmeat. The 18 programs accepted are mostly targeted at countries in the Far East, the U.S. and the countries of Central and Eastern Europe. Unfortunately, the list of approved programs does not break down funding by target destinations.

Approved dairy promotion programs include a joint Parmigiano-Reggiano/Comte scheme (3-year budget: €1,500,000), a French scheme supported by CNIEL (3-year budget: €3,002,000) and an Italian Consorzio Grana-Padano scheme (3-year budget: €986,949).

Budget

For FY 2002, the estimated EU dairy budget amounts to €1.9 billion, or about 4.3 pct of the total agricultural budget, and down from 2.3 billion in FY2001. The preliminary draft budget for FY2003 earmarks €2.1 billion for the dairy sector. Consumption aid represents about half of the dairy budget, while export refunds covers the other half.

The main change from last year's €2.3 billion budget is lower export refunds expenditures. This decrease of the share of restitutions in the dairy budget in 2001 and in 2002 follow opposite market conditions. In 2001, export refunds were low because of sustained world demand resulting in high world prices. On the contrary, export refunds in 2002 are at a high level but subsidize smaller quantities as demand in world markets is sluggish. In addition to these market factors, an increased share of dairy exports is not eligible for refunds, due to the conclusion of trade agreements with CEECs and Switzerland. For instance, it is estimated that in 2001, one third (approximately 170,000mt) of EU cheese exports was not subsidized. However, real expenditures, as opposed to earmarked budget, for restitutions in FY2002 might end up being higher than foreseen given the steep increase of SMP export refunds at the beginning of the year.

The preliminary dairy draft budget is likely to be higher in FY2003 due to higher intervention costs for SMP and butter.

Agenda 2000

The mid-term review of Agenda 2000 dairy provisions was initially foreseen in 2003, but brought forward to 2002, given its close link with the EU beef sector. As Agenda 2000 measures will only enter into force for the dairy sector as of 2005 and the quota system has already been extended until 2008, this mid-term review will be limited to a discussion on the fate of the quota system after 2008. Since the situation of the EU dairy sector has worsened significantly over the last 6 months, with intervention stocks filling up and exports lagging, it seems that the Commission could be open to a debate about support price adjustments and a reassessment of the fat/protein ratio in dairy aid schemes.

Dioxin

In 2001, the EU adopted legally binding maximum dioxin limits in feed and food as part of a comprehensive strategy to reduce the presence of dioxins and PCBs in the environment, food and feed. These new levels will become applicable as of July 1, 2002 and cover feedingstuffs, petfood, meat, liver, fish, milk, eggs and their products, oils and fats. Maximum levels allowed in milk and milk products, including butterfat, were set up at 3 picograms per gram of fat. In 2002, the Commission also issued non-binding recommendations to EU member states to establish action levels for food and feed materials. Action levels are lower than maximum limits and will trigger action on sources of contamination, acting as an "early warning" tool.

Protein standardization

Protein standardization of powders has been requested by the EU dairy industry for a while, as it has been commonly used by major competitors in world powder markets. The Commission opposed the concept at first, fearing an excess of protein on the market would cause market imbalance and budgetary problems. A study was commissioned on the subject, which should have been released in April 2002. According to trade sources, the study concludes that a standardization of preserved milk would only result in 30,000 to 40,000 tons of excess proteins, which could easily be absorbed by the market. If implemented, the standardization of milk powders, already carried out by major exporting countries, could improve the EU's

competitiveness in world markets

Equivalence

In 2000, the United States and the EU initiated discussions towards the establishment of equivalence evaluations of each other's food safety measures for dairy products. These discussions take place within the general framework of the Veterinary Equivalency Agreement concluded in 1999. If the evaluations are successfully conducted, both regulatory systems pertaining to the safety of dairy products will be declared equivalent and strict compliance with each other's specific requirements for trade will no longer be required. In June 2002, a FDA delegation will continue the assessment of the Commission in overseeing member state implementation of EU directives related to dairy products.

Lists

The official list of EU approved dairy establishments in the United States can be found on the USEU homepage (<http://www.useu.be/agri/estab.html>). Establishments on this list are guaranteed to meet EU animal and public health requirements. This list, which is compiled by FDA, is submitted to the EU for approval several times a year. An additional list of U.S. establishments processing dairy products unfit for human consumption has been required by the EU and should be available soon on the same homepage.

EU dairy issues with third countries

The EU dairy industry has raised the issue of difficult exporting conditions to China, possibly linked to the EU ban on Chinese animal products. Tunisia is still restricting EU dairy imports because of dioxin. The EU industry is also concerned by bills introduced in the U.S. Congress establishing import quotas for MPC (milk protein concentrates) as well as by one of the provisions of the Farm Bill applying a mandatory dairy promotion levy (0.15 usdols per hundred pounds of product) to imported dairy products.